A 6510-1 2/86

National Association of Purchasing Management

Report On Business

December 2, 1985
Volume 3, Number 12

New Orders Increase

Lead Times Shrink

Prices Still Lower

November Report

The economy improved again in November, continuing the trend of the past two months, say the nation's purchasing managers in their latest **Report on Business**. Production advanced slightly in November. New orders, after being flat in October, increased significantly, suggesting continued strength in production in December. However, the decline in employment continued. Inventories also were lower, as purchasers cancelled no shortages and a slight improvement in the speed of vendor deliveries. November marks the twelfth consecutive month in which more purchasing managers reported paying lower rather than higher prices, which should bring comfort to those who worried about inflation.

The continued improvement of the economy in November is encouraging. The impressive growth in new orders indicates a good fourth quarter," said Robert J. Bretz, C.P.M., chairman of the Business Survey Committee.

The **Purchasing Managers' Composite Index** advanced to 53.3% in November from 51.7% in October. This marks the third consecutive month in which the key indicator of the health of the economy registered over 50%, recovering from seven previous months under 50%. This is the highest reading since May 1984 (52.2%). A reading above 43% generally indicates that the economy is in an expanding phase, below 43% that the economy is declining.

Employment

Employment continues to decline, even though production and new orders have improved. The 7% of members reporting higher employment in November is the lowest since January 1985 (also 7%), and industry is still being hurt by increased employment despite the economic improvement.

Employment %	Higher	Same	Lower	Net Differ
November	7	68	25	-18
October	11	64	25	-14
September	11	60	29	-18

Buying Policy

Members reporting lead time in the important six months and longer category for capital expenditures remained at 48% in November. This is the lowest level since August 1982 (47%). The 65% of members reporting lead times of 30 days or less for production materials is the most since these statistics were first surveyed (May, 1955). Lead time for MRO Supplies remained relatively short, with 90% of members reporting lead times of 30 days or less, remaining close to the high reached in September 1985 (92%).

	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
Production Materials %					
November	17	48	22	9	4
October	17	45	24	8	6
September	25	34	27	10	4
MRO Supplies %					
November	46	44	8	1	1
October	41	49	5	3	2
September	61	41	4	2	2
Capital Expenditures %					
November	16	4	5	27	48
October	20	5	5	22	48
September	14	4	9	21	52

Semiannual Forecast

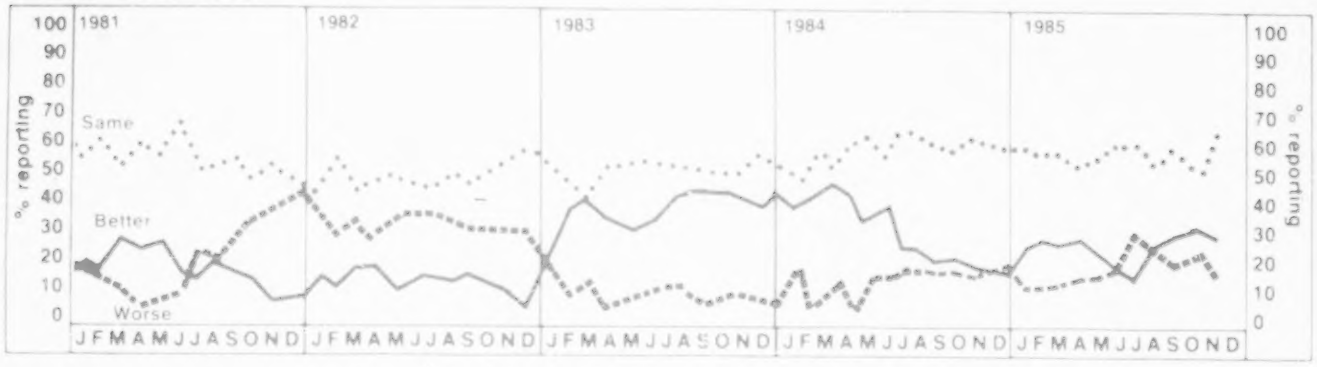
By a two to one margin, purchasers feel the first quarter of 1986 will be better than the fourth quarter of 1985. Also, 54% predict that the first half of 1986 will be better than the last half of 1985. One-third of members feel that prices will increase during the first half of 1986, compared with 54% in December 1984. Of that third who believe prices will rise, 64% say increases will be slight, 36% say they will be selective, not across the board. Capital expenditures for 1986 will exceed 1985 levels, say 36% of purchasers; a full 30% expect them to be lower. In spite of general optimism, 60% of members expressed concern about the overall economy for the next twelve months. This is the highest level expressing concern since March 1970 (also 60%).

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of corporate purchasing, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

Publication: National Association of Purchasing Management, Inc., P.O. Box 418, Oradell, N.J. 07649, issued 10 times a year to N.A.P.M. members. Additional subscriptions to members, $50; nonmembers, $100 per year. Outside the U.S., Canada and Mexico, add $25.00.

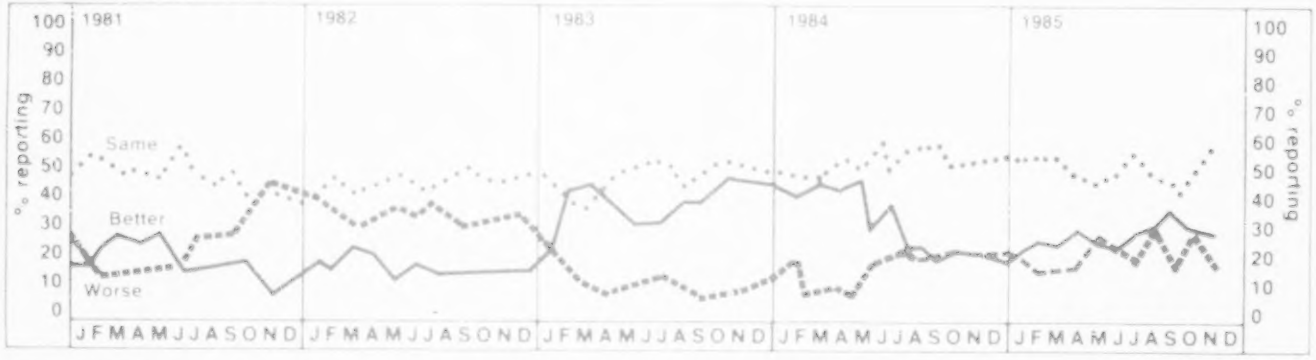
Production



Production improved its rate of growth in November, but only slightly. This was to be expected as a result of the low level of new orders in October. The higher level of new orders registered in November, coupled with reported heavier purchases of materials, suggests there should be greater production activity in December.

Production %	Better	Same	Worse	Net
November	23	62	15	+ 8
October	26	54	20	+ 6
September	23	60	17	+ 6

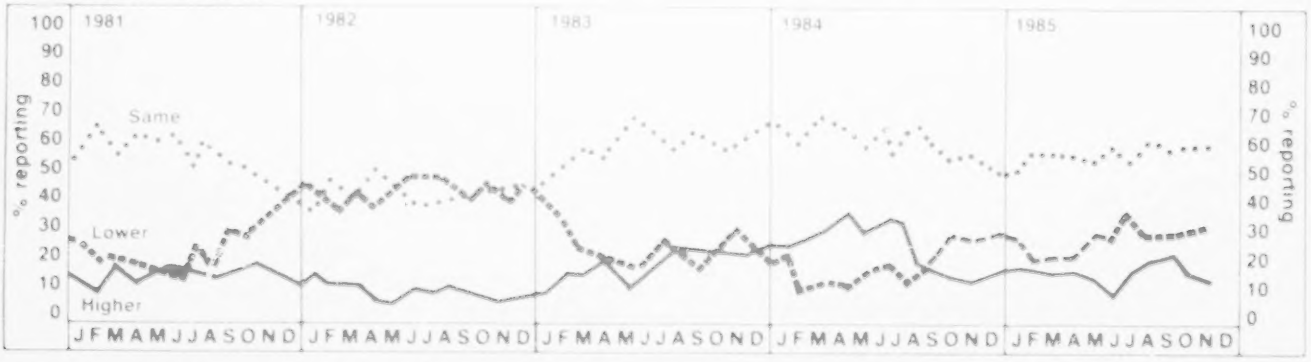
New Orders



After falling in October, new orders registered a favorable gain in November. The 84% reporting new orders as better or the same is the highest percentage since February 1985 (also 84%).

New Orders %	Better	Same	Worse	Net
November	26	58	16	+10
October	27	46	27	0
September	34	46	20	+14

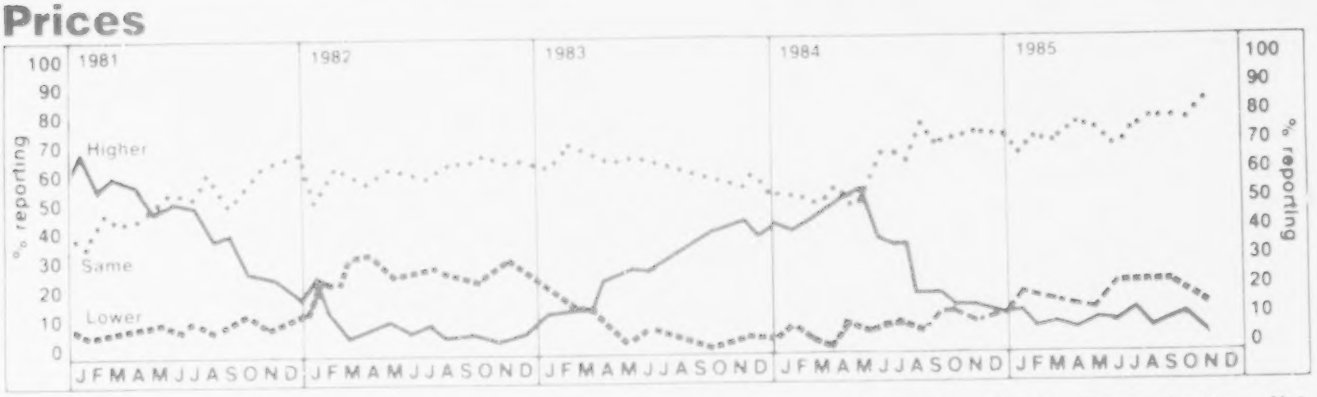
Inventories



The pace of inventory decline quickened in November for the second consecutive month. Even though production continues to improve, purchasers seem confident their suppliers can handle their requirements on short notice and have reduced inventories accordingly.

Inventories %	Higher	Same	Lower	Net
November	12	59	29	−17
October	14	59	27	−13
September	17	57	26	− 9

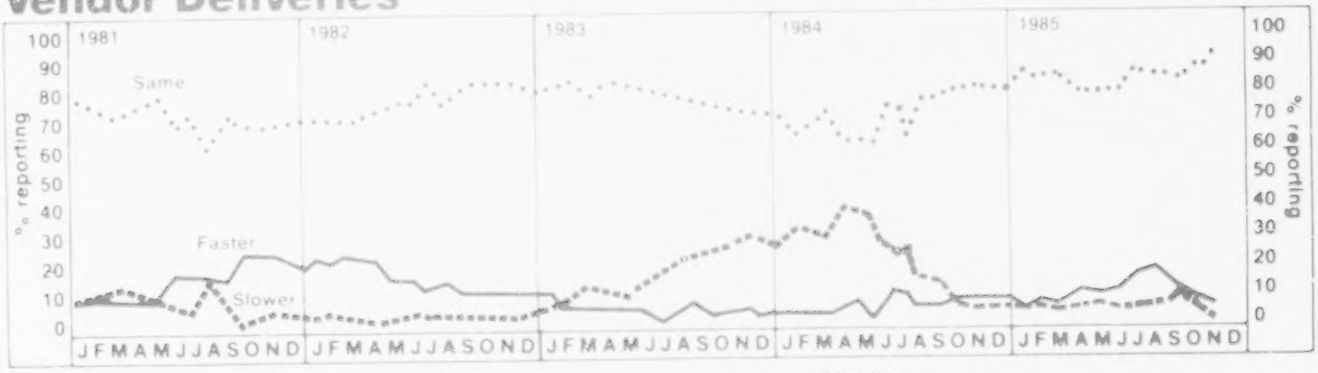
Prices



Prices continue to be a bright spot in the economy to those fearful that higher inflation will return. For a full year, more purchasing managers have reported paying lower prices compared to higher. The 2% reporting higher prices in November is the lowest percentage in over 14 years (October 1971 also 2%).

Prices %	Higher	Same	Lower	Net
November	2	85	13	−11
October	8	76	16	− 8
September	7	74	19	−12

Vendor Deliveries



In spite of the healthy growth in new orders and continued strength in production, purchasers indicate no shortages and slightly improved speed in vendor deliveries. The 2% reporting slower deliveries in November is the lowest since April 1982 (also 2%) and confirms that industry is generally operating considerably below its production capacity.

Vendor Deliveries %	Faster	Same	Slower	Net
November	6	92	2	+ 4
October	7	87	6	+ 1
September	9	82	9	0

Specific Commodity Changes

During November, no items were reported in short supply. This is the tenth consecutive month purchasers have reported no shortages. After twelve consecutive months of being reported down in price, fuel oil prices reversed direction and were reported higher in November. Diesel fuel prices were reported higher for the second consecutive month. Corrugated shipping containers were reported lower in price for the tenth consecutive month. Caustic soda, used to produce the paper from which corrugated containers are made, was also reported lower in price for the fourth consecutive month. Other repeaters on the list of lower priced items for November are steel (third consecutive month) and methanol (second consecutive month).

UP in Price: Fuel oil and diesel fuel.

DOWN in Price: Aluminum, copper, steel, corrugated shipping cartons, caustic soda (used heavily in petroleum refining and paper making) and methanol, a workhorse chemical.

In SHORT Supply: None.

Note: The next issue of the *Report on Business* will be available Jan. 6, 1986.

Commodity Reports

Steel

Prepared by the N.A.P.M. Steel Committee, chairman: Daniel R. Krause, C.P.M., The Budd Company, Troy, MI

We are reminded each day of the continuing problems plaguing domestic steel companies. Plants are still being closed, salary and personnel reductions continue, and some discussion of possible joint ventures is heard. All this will make American steel mills smaller, but more capable of producing better quality material which is more competitively priced in the marketplace.

A new pricing program from the domestic mills will be in effect January 1, 1986. The announced policy would cut flat rolled steel base prices and reduce discounts, a pricing move that could result in higher steel transaction prices next year. All major steel producers have announced this pricing policy. However, previous price agreements for 1986 will be honored. It has been estimated that sheet steel accounts for nearly 40 percent of the domestic mills production, with the automotive sector being the largest user.

Imports of steel products continue to be a concern, since the incoming tonnage is above the government's established policy. It has been reported that steel imports through the first eight months of 1985 totaled 25.4 percent, which is about even with last year's 25.8 percent. There was a reduction of imports in July, however August receipts increased substantially. There are ongoing discussions with the E.E.C. for some reduction in tonnage exported to the United States. There is also concern regarding imports from countries not under the Voluntary Restraint Agreements. Only time will tell how successful the VRAs will be with major steel importing countries.

In September, the N.A.P.M. Steel Buyers Group reported that 3% of their survey members forecast possible shortages of coated material in the next six months. This is the first time since June that shortages have been projected for any material. Lead times for coated material are becoming extended due to market demand. On steel inventory overall, 52 percent of the group will maintain current inventory levels, and 48 percent will decrease inventories.

In response to the question on the trend of general economic activity for the next six months, 90 percent of those steel buyers surveyed think it will remain at current levels.

Domestic steel companies will be negotiating new labor contracts in 1986. Thus the Wheeling-Pittsburgh United Steel Workers contract just ratified could be a pattern for future settlements. Therefore, steel buyers should be aware of possible supply interruptions in 1986, and plan accordingly. (Dean M. Ward, C.P.M., The Maytag Company, Newton, IA)

Energy

Prepared by the N.A.P.M. Energy Committee, chairman: George F. Leymaster, Aluminum Company of America, Pittsburgh, PA

Crude Oil, Distillates and Gasoline

At the end of October, spot crude oil prices were very strong due to the delayed buying tactics of major purchasers during the summer months. The world continues to perceive that crude oil prices will drop next spring by another couple of dollars per barrel.

Residual fuel oil enjoyed stronger summer months, due to peaking demand for electricity. However, in late October, #6 fuel oil fell to its lowest level of the year. The pricing trend of residual oil probably will follow that of spot crude oil.

No. 2 fuel oil inventories reached a 34-year record low level early in the fourth quarter of 1985. This inventory decline caused prices to rise steadily from July through October. Prices will remain high until the purchasing public feels comfortable with this lower level of inventory or until inventories rise. (James H. Kedrowski, Aluminum Company of America, Pittsburgh, PA)

Coal

Coal production in 1985 will be less than it was in 1984, while consumption will increase by several percentages; however, the market remains soft. This paradoxical situation results from consumers continuing to reduce abnormally high inventories during 1985. Stockpiles at the end of September remained about 16 million tons above preferred levels, indicating a soft market well into 1986. Exports are expected to remain fairly stable, while domestic metallurgical coal demand continues to retreat.

Over the next six months, buyers should remain flexible by shopping in the spot market, rather than increasing contract coverage. Contract efforts might best be directed at transportation. Transporters who saw their coal tonnage drop over the last twelve months, may be more receptive to improved volumes, coupled with some reductions in rates. (W.T. Robertson, Jr., C.P.M., Duke Power Company, Charlotte, NC)

Natural Gas

Under a new Federal Energy Regulatory Commission (FERC) rule, an interstate pipeline company that transports gas for any of its customers must offer similar transportation to *all* its customers.

The new FERC rule requires transportation to be on a nondiscriminatory, but voluntary, basis. An interstate pipeline company may refuse to transport gas altogether, but competitive pressures might eventually force it into participating in the open transportation program. The FERC rule does not apply to local distribution companies that sell or transport gas intrastate; they are governed by state rules.

Natural gas users not already buying discount-priced gas directly from producers should investigate the cost savings now possible under the FERC rule. (Ian G. Mackenzie, C.P.M., Corning Glass Works, Corning, NY)

Nuclear Power

Mainly due to the dramatic decrease in demand for electric power and an equally dramatic rise in construction costs, there have been no domestic nuclear power plants ordered since 1979 — and probably none will be ordered for the rest of this decade. But nuclear power is far from dead in the United States. More plants received permission to load fuel in 1985 than in any prior year.

Twenty-five years ago, the average construction time for a nuclear plant was four years. Today, construction time in this country is 12 to 14 years, while France, which generates 60% of its electricity from nuclear power, can build a plant in seven years. To maintain the nuclear option in the United States, construction schedules, and the excessive finance charges which result, must be reduced. To this end, John Herrington, Secretary of Energy, plans to submit a nuclear licensing bill to Congress. (Thomas V. Doyle, Westinghouse Electric Corporation, Pittsburgh, PA)